## **Initiative 1351 Fiscal Impact**

Initiative 1351 (I-1351) will not increase or decrease state revenues. State expenditures will increase — through distributions to local school districts — by an estimated \$4.7 billion through 2019 based on changes to the statutory funding formulas for K-12 class sizes and staffing levels, and through increases in state levy equalization payments directed by current law. Under current law, I-1351 will increase school districts' authority to levy additional property taxes. It is unknown if districts would exercise this authority, but it could generate up to an estimated \$1.9 billion in additional local revenues through 2019.

## **General Assumptions**

- The effective date for section 1, the intent section, and section 3, the phase-in schedule, is December 4, 2014.
- The effective date for section 2, which changes staffing formulas for basic education, is September 1, 2018.
- State estimates are described using the state's fiscal year of July 1 through June 30. For example, state fiscal year 2015 is July 1, 2014, to June 30, 2015.
- School district estimates are described using the school fiscal year of September 1 through August 31. For example, school year 2014–15 is September 1, 2014, to August 31, 2015.
- I-1351 has no fiscal impact on school year 2014–15 or on state fiscal year 2015.
- Due to current law, the changes in I-1351 will have the effect of increasing local levy authority and levy equalization payments. Changes to local levy authority are described on a calendar-year basis.
- The Office of Financial Management assumes the school year 2014–15 funding formulas continue into the future, except where stated.
- Public school enrollment is forecast to grow annually between now and 2019. This fiscal impact statement incorporates higher student enrollments for its calculations as forecast by the Washington State Caseload Forecast Council.
- State and local salaries will increase annually by the Initiative 732 cost-of-living adjustment as forecast by the Washington State Economic and Revenue Forecast Council.
- Pension rates are as adopted by the state Select Committee on Pension Policy, July 2014.
- Enrollment in high-poverty schools is projected by using free and reduced-price lunch eligibility for the 2013–14 school year.
- Chapter 236, Laws of 2010 (Substitute House Bill 2776), requires the state's funding formulas to support class sizes of 17 for kindergarten through grade three (K-3) and 100 percent enrollment in state-funded, full-day kindergarten by school year 2017–18. Since current law does not specify what additional funding will be put into class size or full-day kindergarten for the 2015–17 biennium, baseline K-3 class sizes and full-day kindergarten enrollment are assumed to be the same as for school year 2014–15.

#### **State Revenues**

I-1351 does not increase or decrease state revenue collections.

## State Expenditures

As shown in Table 1, state expenditures will increase by \$4.7 billion through 2019 due to:

1. The phase-in schedule and changes to state formulas, affecting the number of teachers and staff funded to meet the smaller class size and other conditions of the initiative.

## 2. Increases in state levy equalization payments.

04	Table 1: Summary of State Expenditures Under I-1351  Dollars in Millions (rounded to 10 millions)							
State Fiscal Years								
Component	2015*	2016	2017	2018	2019	TOTAL		
Phase-in changes to state funding formulas	\$0	\$890	\$1,090	\$890	\$1,620	\$4,490		
Higher levy equalization payments	\$0	\$0	\$60	\$80	\$70	\$210		
TOTAL	\$0	\$890	\$1,150	\$970	\$1,690	\$4,700		
*The requirements of I-1351 do not start until after fiscal year 2015 is completed.								

I-1351 new staffing formulas are not fully implemented until midway through the 2017–19 biennium. Full biennial costs are projected to be \$3.8 billion for the 2019–21 biennium.

### 2015-17 Biennium

I-1351, section 3(1) requires that "[f]or the 2015–17 biennium, funding allocations shall be no less than fifty percent of the difference between the funding necessary to support the numerical values under RCW 28A.150.260 as of September 1, 2013, and the funding necessary to support the numerical values" under I-1351, section 2, effective September 1, 2018.

The fiscal impact of this section is \$2 billion for the 2015–17 biennium.

The 2015–17 biennium refers to school years 2015–16 and 2016–17. Using updated enrollments, salaries and benefits for the 2015–16 and 2016–17 school years, the fiscal impact was calculated by finding, for the respective school years:

- 1. The cost of the changes to state staffing formulas in I-1351, section 2
- 2. The cost of the state staffing formulas in place as of September 1, 2013
- 3. The difference in costs between the two formulas, by school year
- 4. The amount of that difference divided by half
- 5. That amount adjusted from a school fiscal year to the state fiscal year schedule

I-1351 places priority for additional funding provided during the 2015–17 biennium for the highest-poverty schools and school districts. For the purpose of this estimate, it is assumed the state will appropriate the minimum amounts stated in I-1351.

### 2017-19 Biennium

I-1351 requires that by the end of the 2017–19 biennium, funding allocations be no less than the funding necessary to support the formulas stated in the initiative at that time.

The fiscal impact of this section is \$2.7 billion for the 2017–19 biennium.

The 2017–19 biennium refers to school years 2017–18 and 2018–19. It is assumed the funding required by I-1351 in the 2015–17 biennium will continue for school year 2017–18 and that the initiative will be fully implemented in school year 2018–19.

The state will need to provide \$1.3 billion more in the 2017–19 biennium to implement the requirements of Chapter 236, Laws of 2010 (SHB 2776) in school year 2017–18. However, this amount is separate from the fiscal impact of I-1351, as these class sizes and enrollments are already authorized under state law.

Consistent with current law, it is assumed that as of school year 2017–18, the state will provide funding for class sizes of 17 for grades K-3 and funding to support full-day kindergarten for all kindergarten students statewide.

# Basic Education Formula Changes Effective September 1, 2018 (school year 2018-19)

I-1351, section 2 amends RCW 28A.150.260, the state's basic education formulas for general student class size and school staffing, effective September 1, 2018. It lowers the class-size ratios and increases staffing for both school-based and district-wide staff. This will increase the state general student rate provided to districts. And because I-1351 increases the state general rate, it will also increase the state's funding for special education. Schools now receiving a small school factor will receive more funding through the funding formula and, consequently, will receive less funding under the small school factor.

Table 2 is a summary of the staffing changes under I-1351. It shows, for school year 2018–19, the new state-funded staff positions and their cost. These projections assume that class sizes of 17 for grades K-3 will have already been implemented under current law in school year 2017–18. All other costs compare the staffing formulas authorized for school year 2014–15.

Table 2: New Staff and Related Costs for Implementing I-1351 on Sept. 1, 2018^ School Year 2018–19								
Class Size/Position	New State-Funded Staff Positions	New State Expenditures	New School District Expenditures†					
	Staff full-time equivalent employees	Dollars in millions (rounded to 10 millions)						
Additional teachers to meet class-size changes	7,453	\$510	\$590					
Additional school-based staff	10,674*	\$810	\$980					
Additional district/central staff	7,434**	\$370	\$450					
Special education funds~		\$140	\$170					
Reduction in small school factor	-237	\$(20)	\$(20)					

^Changes refer to I-1351 compared to continuing school year 2014–15 apportioned formula, with the exception of K-3 class size of 17 and statewide full-day kindergarten, which are scheduled to be implemented by school year 2017–18, pursuant to Chapter 236, Laws of 2010. As of Sept. 1, 2013, these class sizes were authorized under RCW 28A.150.220, though they were not funded as of Sept. 1, 2013.

**NOTE:** Once current law (Chapter 236, Laws of 2010) is implemented, the state will fund 7,396 additional teachers and 909 other staff to meet class sizes of 17 for K-3.

<sup>~</sup>Special education is distributed as a percentage of the general student rate. The state formula does not allocate staffing positions for special education.

<sup>\*</sup> Revised from 17,081 to 10,674 on October 30, 2014.

<sup>\*\*</sup> Revised from 1,027 to 7,434 on October 30, 2014.

<sup>†</sup> New School District Expenditures is inclusive of New State Expenditures.

## Increase of Levy Equalization Payments to District

As state formula funding increases under I-1351, under current law, so does districts' local levy authority and state levy equalization payments. Table 3 shows the impact from I-1351 on state levy equalization payments.

Table 3: State Levy Equalization Payments Dollars in Millions (rounded to 10 millions)							
State Fiscal Years							
2015 2016 2017 2018 2019 TOTAL							
Cost	n/a	n/a	\$60	\$80	\$70	\$210	

## **Local Revenues**

## Revenue received from the state

I-1351 increases revenues districts receive from the state by \$4.7 billion over five years.

Table 4 summarizes the district revenues received from the state. (Please see the state expenditure information and Table 1 for an explanation of how district revenues received from the state will increase under I-1351.)

**NOTE:** This funding is received on a school-year basis, which is different from the state fiscal year. As a result, the figures in Table 1 and Table 4 may not match.

Table 4: Estimated School District Revenues from State Funds Dollars in Millions (rounded to 10 millions)							
School Years							
	2014–15	2015–16	2016–17	2017–18	2018–19	TOTAL	
State formulas	n/a	\$1,110	\$1,100	\$850	\$1,810	\$4,870	
State levy equalization	n/a		\$60	\$80	\$70	\$210	
TOTAL STATE FUNDS	n/a	\$1,110	\$1,160	\$930	\$1,880	\$5,080	

## Revenues from school district property tax levies

Since I-1351 increases the state K-12 funding to districts under RCW 84.52.0531(3), it also increases local levy authority.

It is unknown how many districts will exercise this authority. Further, voters must approve school district levies and school boards must annually certify the amount of property taxes to be collected. However, districts opting to exercise this authority could generate up to an additional \$1.9 billion in local revenue from higher property taxes over the next five years.

Table 5 shows, on a calendar-year basis, the statewide increase of local levy authority under I-1351.

Table 5: Estimated School District Levy Authority Increases Dollars in Millions (rounded to 10 millions)							
Calendar Years							
	2015 2016 2017 2018 2019 TOTAL						
Local levy authority	n/a	n/a	\$750	\$660	\$520	\$1,930	

## **Local Expenditures**

I-1351 increases school district expenditures by \$6.0 billion over five years. See Table 6 for detail by school year.

I-1351 requires that state funding for class-size reduction be provided only to the extent districts document they are meeting the funded class-size reductions under the initiative. However, districts with facility needs that prevent them from reducing class sizes may use the funding for school-based personnel who provide direct services to students. It is unknown how many districts will apply for this exemption. It is also unknown what mix of school-based personnel would be employed, such as instructional aides, counselors, principals, etc., instead of classroom teachers. For the purpose of this cost estimate, it is assumed districts will staff for the class sizes stated in I-1351.

I-1351's staffing directive does not apply to the school-based or district-based staffing allocations. It is unknown how districts will spend this funding. For the purpose of this cost estimate, it is assumed districts will staff to the formulas provided in the initiative.

It is assumed districts will fully spend the allocations received for special education, career and technical education and skill centers on those programs, consistent with current program requirements. It is also assumed that districts will maintain statewide average salary rates as provided in school year 2013–14. Local school district average salaries are higher than funding apportioned by the state.

Table 6: Estimated School District Expenditures Dollars in Millions (rounded to 10 millions)							
School Years							
2014–15 2015–16 2016–17 2017–18 2018–19 TOTAL							
Expenditures \$0 \$1,320 \$1,380 \$1,100 \$2,240 \$6,040							

### Facility Costs and Impacts on State and Local Capital Budgets

I-1351 does not mandate an increase in state or local capital facilities. It is unknown how districts will implement I-1351 or how it will affect their facility choices. Districts may propose a bond measure to build new facilities or remodel existing facilities. All bonds are subject to voter approval. Some voter-approved bonds may be eligible for state construction assistance.